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Director of Central Intelligence

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ARGENTINA: Economic Moves

Government leaders have taken steps to preserve economic order through the elections scheduled for October, but the policy measures will heighten problems for the next administration. [redacted] 3.5(c)

Argentina's financial package came close to unraveling this week because of the junta's reluctance to lift foreign exchange controls on British firms in the country. Once the government agreed to meet loan criteria, however, the IMF approved Buenos Aires's second draw on loan funds. [redacted] 3.5(c)

The leadership also approved a new set of economic measures designed to curb the inflation rate, which is now over 300 percent annually. The measures include restraints on wage, price, and interest rate hikes as well as on new government investment. A steep surcharge was placed on income taxes, but, to placate industrialists, the value-added tax was slightly reduced. [redacted] 3.5(c)

Nationalists have called the lifting of sanctions against the UK a sellout. Labor leaders have complained that the package will not do enough to maintain the workers' standard of living. [redacted] 3.5(c)

Comment: Reconciliation with the IMF has paved the way for new funds necessary to sustain the recovery program. In addition, bankers should now be willing to reschedule Buenos Aires's large short-term debt. [redacted] 3.5(c)

The next government, however, will pay a price for these fleeting gains. Although price controls will repress inflation rates for now, the market distortions they create will set the stage for substantial jumps later in the year. Interest rate ceilings and reduction in the value-added tax also will work to restrain near-term inflation, but they will discourage savings and spur capital flight. [redacted] 3.5(c)

Moreover, the tax package will not prevent higher deficits. This will add to the inflationary pressures that will be one of the early challenges facing the civilian administration. Labor will put pressure on the new government to allow wage increases. [redacted] 3.5(c)

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